

31 March 2009

The Directors
FEA Plantations Limited
PO Box 733
Launceston Tasmania 7250

INDEPENDENT MARKET REPORT – FEA Plantations Project 2009

Dear Sirs,

The following report has been prepared for use by FEA Plantations in preparing a Product Disclosure Statement (PDS) in relation to FEA Plantations Project 2009 (the Project). The Project comprises the growing of various hardwood and softwood plantations for the pulpwood and sawn timber product markets.

Apart from preparing this report and the associated Independent Forester's Report, Van Diemen Forestry Consultants Pty Ltd (VDFC) has had no other involvement in the preparation of this PDS.

The ultimate success of a plantation investment is reliant on the saleability of, demand for, and price fetched by the products grown and harvested. Over the last 6 years, FEA Plantations' parent company Forest Enterprises Australia Limited (FEA) has become a fully integrated forest products operation with a high technology plantation sawmill and an export woodchip mill located at Bell Bay in northern Tasmania. In 2004/05 it also achieved sales of plantation logs into export markets for veneer peeling. In 2008 FEA purchased a property in the Douglas Daly River region of Northern Territory for development of an African mahogany plantation, a nursery for mahogany seedlings and hired a staff forester with African mahogany management experience. This report examines the potential end uses and sales of plantation hardwood and softwood products both in Australia and in likely export destinations.

This report aims to provide FEA Plantations in the Project with an independent assessment of the forest products market. It has been prepared in accordance with the Australian Forest Growers 'Disclosure Code for Afforestation Managed Investment Schemes'. VDFC consent to FEA Plantations providing a copy of this report to prospective investors in the Project.

VDFC have prepared a summary of this report for inclusion in the PDS.

Qualifications and experience

VDFC provides this report based on the experience of its principal consultant, Mr Gerry Cross, which spans 40 years in plantation and forest management around the world. This experience includes some 33 years involvement in Australia's hardwood and softwood plantation industries.

Mr Cross's qualifications are:

- Bachelor of Science (Forestry) from the Australian National University.
- Member of the Institute of Foresters of Australia (IFA).
- Registered Professional Forester registered as a General Practising Forester.
- Deputy Chairman of the Association of Consulting Foresters of Australia Division of IFA.
- Member of Australian Forest Growers.
- Member of the National Association of Forest Industries.
- Member of a Victorian Panel for the Accreditation of Forest Practitioners to advise local government on forest practices.

The opinions in this report are based on published materials, our inspections of FEA's plantations and other plantations in Tasmania and interstate, as well as wide experience with markets for plantation products.

In addition, Mr Cross has been involved in the harvest of logs from most plantation and forest types and in the supply of these logs to the full range of types of timber processing plants in many countries.

In August 2008 the Institute of Foresters of Australia hosted a tour for members of the Tropical Forestry Significant Interest Group of tropical plantation developments in Northern Territory. Mr Cross participated in this tour. Significant portions of this tour concentrated on the history and current establishment and management of African mahogany (*Khaya senegalensis*).

The Project offers five Woodlot options:

- a short Rotation eucalypt regime that will produce pulpwood and unpruned sawlogs at a 13 year Rotation (Option 1);
- a high value pruned Eucalypt sawlog/pulpwood regime; with a 16 year Rotation (Option 2)
- a traditional Radiata pine regime that will yield softwood sawlogs/pulpwood plus other products; in a 25 year Rotation (Option 3),
- a high-value African mahogany sawlog regime with an 18 year Rotation – (Option 4); and
- a Diversified Forestry Offer with four Woodlots of Eucalypt hardwood Option 1, one Woodlot of Eucalypt hardwood clearwood Option 2, Radiata pine softwood Option 3 and high-value African mahogany hardwood Option 4 for a total of 3 & $\frac{1}{5}$ ha – (Option 5).

Pulpwood (woodchip) markets

From 1996 to 2006, world production of paper and paperboard has increased at an average annual rate of 2.5% increasing output by 80.4 million tonnes, or from 284.3 million tonnes in 1996 to 365.1 million tonnes in 2006.

Wood pulp made from woodchips is the most important raw fibre material for paper making and accounts for about 50% of the paper industry's total raw material consumption. Recovered paper represents an increasing share of the total but, as the differential between market demand and supply of recovered paper tightens, the need for both hardwood and softwood resource will accelerate.

Between 1996 and 2006 the apparent consumption of paper and paperboard in Asia increased at an average annual rate of 4.7%. This growth is almost twice as fast as the rate of increase in global supply over the same period. For Asia the sharp rise in demand is being driven by China's growth in population, literacy and income levels. The largest increases are in uses of paperboard grades for packaging of exported goods, whilst the consumption of newsprint and writing paper is rising with increased levels of literacy and commerce. There is a demonstrably strong correlation between increasing GDP and greater paper and paperboard consumption.

According to RISI there has been an increase at an annual rate of 1% in global wood pulp production for the decade ending in 2007 and that this has mainly been in bleached hardwood Kraft Pulp (BHKP). They also forecast that over the next five years 2007 -2012 that the rate of increase will lift to 2.2% per annum or an increase of 20 million metric tonnes. Based on a review of production levels of various grades of pulp for the past decade RISI forecast that the majority of these increases (60%) will be as BHKP. At a normal 3.4 green metric tonnes (GMT) per tonne of pulp that would mean an increase in annual chip supply of 70 million GMT of wood

In 2007 RISI reports that the Pacific Rim imported an estimated record of 16.8 million tonnes of chips with Australia exporting 5.16 million BDMT

Eucalypt woodchips

Japan

Japan's current (2007) level of imports accounts for 79% up from 77% of the volume of the Pacific Rim international woodchip trade. From 1980 to 2007, woodchip imports to Japanese paper mills increased from 46% to 77% of their supply, Japan is the main buyer of Australian woodchips. Australia is the largest seller of hardwood chips to Japan, supplying about 37.3 % of Japan's hardwood chip imports in 2007. . This position is likely to be maintained as Japanese paper companies have traditionally bought in AUD from Australia, but in \$US from our competitors and the recent decline in value of the AUD relative to the US\$ makes Australian woodchips very competitively priced as well as being in closer proximity.

However, Japan's sources of supply have also been changing. Whereas the USA was the largest exporter to Japan in 1999, the import of hardwood chips from the USA has now almost ended as the US has shifted to supplying its own domestic pulp and paper mills. South Africa has remained the second largest supplier of hardwood to the Japan market, but resource limitation, changing exchange rates and distance are likely to mean that its recent large increase in market share is not sustainable. Other sources such as Chile and Vietnam have increased their contribution in recent times.

A major recent feature has been the shift from native forest fibre to plantation fibre, which has progressively increased its market share from about 24% of demand in 1995, to 50% in 2001, and 71% in 2004. In addition, there has been a rapid increase in the proportion of eucalyptus in Japanese hardwood chip imports from 48% in 1997 to 77% in 2004. This includes a range of eucalypt species.

The overall hardwood volume imported by Japan in 2007 was 11.844 million BDMT of which Australia contributed 4.4 million BDMT, which was nearly all eucalyptus and largely from plantation or regrowth forest.

China

The Chinese paper market is reportedly growing at an average of 9% a year. Despite this growth, a shortfall of 10 million tonnes of paper from its current needs was forecast in 2005. Such a shortfall translates into a 30 – 40 million tonne shortfall in woodchip requirements. Several reliable commentators on the Chinese market, such as China International Business, indicate that the Chinese demand for pulp and pulpwood will be unable to be satisfied internally before 2025 and that, until 2015, there will be a fibre deficiency in China.

There has been a rapid increase in imports of recycled paper from sources such as the USA, Europe and Japan – from 0.9 million tonnes in 1995 to 12.3 million tonnes in 2004. Domestic recycling has also become more important, but it is still below world averages at 31% and there are quality problems with some domestic fibre for recycling because a larger proportion than elsewhere is from non-wood sources.

The production of pulp from non-wood sources is proportionately declining because of environmental and quality issues. The expansion of China's paper production that has resulted from construction of new paper mills necessitates the use of larger volumes of wood-based virgin pulp with sufficient high tensile strength to cope with efficient high speed production. This is forecast to increase the use of wood pulp in paper making from a level of 22% in 2005 to 29% by 2020. In 2006, with 58 million tonnes China was the second largest producer in the world after the USA which produced 84.3 million tonnes of paper and paperboard. Production levels in the USA are not rising and there are closures of production units reported every month while China's production levels have been rising at an annual average rate of 6.7%

The Chinese paper industry is still in a growth phase as the annual per capita consumption of paper in 2006 was just 41.7 kg. This is low compared to mature markets in developed countries where per capita consumption is in the order of 220 kg. China currently has some 13 paper manufacturing projects in the development or planning phase with start-ups in the 2007 to 2010 period. In order to service this growth, consumption of wood pulp is forecast to increase from 13 million tonnes in 2005 to 40 million tonnes by 2020. It is expected that 20 million tonnes of this volume will be imported with the remainder generated from domestic production.

Indonesia

Another significant emerging market is the Indonesian paper industry, which has built several world scale mills in recent years. Indonesia has been exporting woodchips to China mills and there are now Sumatran mills reportedly short of resource and without a resolution of the access to mixed hardwood forest in forest concessions there was a shortfall of 4-5 million tonnes in 2007 which had to be replaced with plantation wood. In addition to this early harvest of plantation wood there were some 80 – 100,000 hectares not cleared and established to plantation in 2007.

Whilst the Indonesian paper industry is seeking reliable supplies, there is considerable uncertainty about the ability of Indonesian plantation programs to meet the demand. There is also uncertainty about how long the major pulp mills will continue to have access to the native forest resource. This makes the supply/demand situation very unclear which may provide a market opportunity. In recent years, Tasmania has exported large volumes to at least one of Indonesia's major pulp and paper mills.

India

Despite having over 1 billion people, or 16% of the world's population, India consumes only about 1% of the world's paper production. The Indian paper industry has about 400 mills for which non-wood fibre and recovered paper comprise about 70% of the raw material requirements.

Paper demand in India has increased by about 5.4% per year over the last decade, and is predicted to increase considerably through to 2020. Paper usage is only about 6.7 kg per capita per year. This is very low compared with the world per capita average of 55kg and the Australian average of some 208kg (2004/05). Despite this low per capita demand, India currently has a production shortfall of just under a million tonnes per annum. This shortfall is currently made up from imports of finished product. Any increase in domestic consumption of paper requires construction of additional production capacity and additional import of either pulpwood or finished pulp. Existing paper manufacturers are chasing plantation resource in neighbouring south-east Asian countries.

The main problem for woodchip exports to India is that there are only two or three mills with the capacity and scale to use them and they are located several hundred kilometres inland in central-southern India. In the current market, lack of suitable port and internal transport infrastructure make chip imports by these mills uneconomic. However, if the Indian economy continues to develop, and given the link between gross domestic product and paper usage, India may become an important market for either woodchips or wood pulp in the medium to long-term. The most likely scenario in the short term is for an increase in the import of processed wood pulp into India.

Recent predictions suggest that within 25 years India may be the world's third largest economy after the USA and China. There is a potential market for either pulpwood or (more likely) pulp and Australia with its expertise in plantations and efficient pulp production offers opportunities for successful joint projects.

Australia

Australia is a net importer of pulp and paper. According to statistics from the Australian Bureau of Agriculture and Resource Economics, the net trade deficit in paper and paperboard, paper manufacture, and pulp for 2005/06 was about AUD \$1.9 billion.

There have been significant developments in Australian pulpwood markets. Reviews of the potential for pulp mills based on the Western Australian resource and the future resource in the Green Triangle region of south-eastern South Australia and western Victoria are in progress. There is a pulp mill based on plantation hardwood and the Bleached Chemi-Thermo-Mechanical Pulp (BCTMP) process proposed for the Green Triangle at Penola and this is only at planning approval stage. There is already a plantation hardwood chip export facility operating at Portland in south-western Victoria.

The Tasmanian resource of plantation hardwood, softwood and native forest regrowth is sufficient to support a domestic pulp mill as well as some export. In 2008, major Tasmanian-based forestry company, Gunns Ltd received approvals from the Tasmanian state government and the Federal government and is about to commence construction

Based on current proposals, at least one world scale pulp mill should have been constructed in Australia by the time the Project's plantations reach maturity. All proposed developments are based around the use of plantation hardwood. Hence there may be additional domestic as well as export market options at the time of harvest. Furthermore, the Chinese market is also forecast to be seeking bleached kraft hardwood pulp in preference to woodchips. The combination of domestic plants and strong export demand for both pulp chips and pulp should provide competitive prices for hardwood plantation Investors. When enough volume is available it should attract a premium for competing domestic and export sales because Australia has a volume advantage and is close to developing markets.

In Western Australia, where a large area of plantation is coming into production, two export woodchip facilities came on-stream in 2002/03 a further two new plants during 2006 and at least one other export processing plant is in the advanced planning stage.

There are also export woodchip operations at Brisbane and Newcastle which may develop further with the influx of plantation hardwood chips. The Brisbane operation processes softwood pulpwood at the port and receives residues from softwood mills north of Brisbane. At least one other company is establishing eucalypt plantations in the Brisbane region with the aim of exporting hardwood woodchips from the same port.

Rail transport of woodchips to Brisbane from mills in south-east Queensland and/or northern NSW is feasible and logical.

Softwood (pine) woodchips

Australian exporters of softwood chips have been active in the Japanese market for two decades and Australia is the current major supplier to the Japanese with 44.2% of the market of 2.39 million BDMT in 2007. This is a combination of Radiata pine, Caribbean pine and slash pine sources.

As well as export opportunities, the proposed Tasmanian Kraft pulp mill which, at the time of writing, is at final stages of approval, is also a likely market for pine woodchips and would provide another competitive market for this resource. This may be of value to Investors if the Australian dollar exchange rate continued to appreciate and priced Australian softwood out of the market in Japan which is the main buyer for softwood chips.

FEA's capacity to supply pulpwood markets - SmartFibre Pty Ltd

SmartFibre Pty Ltd (SmartFibre) operates a modern woodchip mill and export facility at Bell Bay in Tasmania under the ownership of a joint venture that includes FEA as a 50% shareholder. SmartFibre has been exporting woodchips to Japan and other countries since 2003.

This operation provides an alternative export outlet for Investors' timber. SmartFibre has negotiated export sales with North Asian customers for plantation and regrowth hardwood chips. Sales into Japanese markets continue to grow with its important customer DAIO Paper; gaining important 'core supplier' status with Nippon Paper Industries (NPI) and a long term contract with both NPI and Marusumi Pulp and Paper. There was an increase in the frequency of shipments during the 2007/08 financial year.

SmartFibre re-commenced exporting of softwood chips in January 2007 under a long-term supply contract in the Japanese market.

Stumpage

The value of the saleable part of the tree to the forest grower is known as the 'stumpage'. This is the residual \$value per cubic metre of the tree standing on the stump after deduction from a mill door or wharf gate price of all production costs such as harvesting, log cartage to the processing facility, and marketing.

The stumpage calculation may take into account factors such as stand volume, access, distance to mill, individual piece size and wood quality. There may be a range of products and mill door prices for logs from any plantation harvest.

Eucalypt pulpwood prices

Shining Gum (*E. nitens*) is renowned for the high quality of its fibre for chemical pulping. Stumpage paid for managed native forest pulpwood currently varies from between \$5 and \$18 per tonne for private property wood, to \$22 per tonne for pulpwood from state forest (when road tolls of up to \$4.80 per tonne are included). A range of \$21 to \$34 per tonne (\$23.10- \$3740 /m³) has at times been paid for *E. nitens* thinnings in north-east Tasmania. Whereas for Clearfall volumes of *E. nitens* pulpwood stumpages of \$25 to \$40.44 per tonne (\$27.50- \$44.48/m³) are reported as paid.

Prior to the 2008 price increase for woodchips, stumpages of \$20 to \$47.40 per tonne (\$49.77/m³) were being paid for plantation grown *E. globulus* (Blue Gum) pulpwood in Western Australia. In South Australia, Clearfall stumpage rates of \$22 to \$33 per tonne (\$34.65/m³) have been reported for plantation *E. globulus*. These differential rates are based on distance from the port of Portland in Victoria.

In NSW, only limited volumes of young plantation resource are available. Current sales are mainly from plantations of Blackbutt and Rose (Flooded) Gum, which are at least 38 years old and more closely resemble native forest. Some of the pulpwood residue from the harvest of these early eucalypt plantations is exported via Newcastle.

There are positive factors, which will influence Free on Board (FOB) wood fibre exports from the Port of Brisbane and consequently stumpages from wood from northern NSW and south-east Queensland. These include the three days shorter shipping time from Brisbane to Japan compared to WA and Tasmania, and the substantially higher wood densities of the sub-tropical tree species grown in these northern regions.

The suitability for pulpwood of the five species that have been planted in NSW and Queensland in the Project to date has been confirmed by CSIRO research on pulping qualities published in 2001.

Eucalypt pulpwood 'plantation price premium'

The current average stumpage for plantation hardwood destined for woodchip production is estimated to be \$42/m³ for thinnings from 9 year old plantations and \$45/m³ for older wood from final harvest. The older trees from final harvesting have a higher density and yield more pulp, as well as having a larger log piece size and lower harvesting cost. These prices are based on the premium that can be achieved for export shipments of solely plantation woodchips, or other chips that yield higher wood fibre, known as E54 and EP sales.

The high pulp yields from young wood in plantations and regrowth native forest, plus the uniformity of resource and low chemical costs (due to the higher brightness of the material), compared with older wood in native forest, suggests a premium may be payable for young wood. This could generate stumpages in the order of \$42 - \$45 per m³.

This is reflected to some extent in the BDMT FOB price of \$177 (2006) achieved for regrowth combined with plantation woodchips from Tasmania (E54 grade), and the \$189 for certified plantation chips from WA, compared with \$162 for lower quality native forest chips. In 2006, there was a premium of 9.6% per BDMT FOB for higher quality export woodchips from Tasmania. Price increases of approximately 10% were subsequently also achieved for the 2008 calendar year, resulting in plantation prices of \$207.40/BDMT for WA and \$198.50/BDMT for Tasmania.

However, there are price discounts or variables based on species, distance to port or mill, extraction method, handling costs, wood quality (including when related to age), volume availability, and market conditions.

For thinnings, \$42/m³ (\$40.01/tonne) is at the high end of the present range of prices for Tasmanian pulpwood because most shipments from Tasmania are of mixed regrowth and plantation wood with a range of yields and quality. This has been due to the limited supply of plantation eucalypt. In these cases processors have not been paying the higher stumpages that are feasible when a premium is received for plantation-only shipments. In most areas, the supply has now been increasing exponentially and the market demand for export as well as the potential domestic pulp mill demand is also firming.

However, \$45/m³ (\$42.86/tonne) is being achieved as mill door stumpage for a large parcel of *E. nitens* final harvest. Such higher prices should become more common because enough plantation wood is now available to supply either an entire mill or a consistent export volume. The increasing area of maturing hardwood plantation now makes large export sales routine possibilities in both Tasmania and WA with smaller volumes being exported from the Green Triangle region. The offshore markets have competed vigorously for log volume by increased stumpages even though there has been little or no increase in the export prices of plantation eucalypt chips. There should be an improved local market with the development of a Tasmanian world scale kraft pulp mill which offers potential for higher stumpages.

In 2007, the volume of eucalypt plantation pulpwood produced from private property in Tasmania was 0.93 million tonnes, and this comprised most of the hardwood plantation pulpwood harvested. The unpruned sawlog processed by FEA is included in these volumes. In the past two years, minor volumes of plantation hardwood sawlogs have been harvested. The specification for these logs is unique and includes lengths down to 3m and a small end diameter of 150 mm which increases the amount of sawlog yield in thinnings and Clearfall. . Forecasts for the period 2006 - 2031 are for pulpwood yields from private hardwood plantations to quadruple to 3.6 million tonnes and for plantation sawlog (conventional specification) and veneer log volumes to reach 500,000 m³ a year by 2022.

Solid wood (sawlog) markets

Eucalypt hardwood sawlog

Internationally, the native forest hardwood sawn timber supply has been declining by about 2% annually, principally because of a shrinking native forest resource base. Countries such as Brazil are increasingly transferring to eucalypt plantations for hardwood timber and developing markets for their own plantation grown eucalypt in the USA and even Australia.

In Australia, the apparent consumption of native forest hardwood has been declining by about 4% a year over the last decade for similar reasons – partly offset by a large rise in imports of sawn hardwood (9% in 2000/01, 11% in 2003/04, and 11% in 2004/05). Such rises may not continue, and the outlook depends mainly on the level of home building approvals. Recent reports indicate that when investment confidence rises there is increased consumer demand for housing and, if land price and availability is resolved, then there should be a lift in housing construction activity.

Radiata pine softwood sawlog

Australia has been establishing softwood plantations for around 100 years. Following a major expansion in the post-WWII period, the rate of softwood plantation establishment has slowed since the late 1970's, when the Commonwealth ceased the funding of State softwood plantation expansion. There are now just over one million hectares of softwood plantation in Australia.

A substantial local softwood sawmilling industry has developed based on this resource. In 2005/06 domestic production of softwood sawn timber was 3.6 million m³ with a further 0.6 million m³ of sawn wood imported according to ABARE's Australian Forest and Wood Products Statistics - Sept and December Quarters 2006. There is definitely potential to replace more imports and also to expand exports to a growing North Asian market if softwood plantations expansion recommences.

African mahogany hardwood sawlog

African mahogany hardwood has been a favoured timber in Europe since the 19 century when it was used to supplement the diminishing supplies of 'true' mahogany from tropical America. The wood is of medium density and pleasant appearance with the benefit of being stable and having good working properties. It has been used extensively in the furniture industry for reproduction furniture, office desks, and cabinet work. It is also used for interior joinery, boat building, internal fittings veneers and other purposes where a good quality medium weight hardwood is required.

Trial plantations have been in place in the Northern Territory since the 1950's and there has been a wide range of provenances planted and this has formed a base for development of germplasm. Over the past four years there has been a considerable amount of seed collected from provenances in South West African countries and planted in trials to develop quality germplasm in the Northern territory. There have been several sawmilling and furniture businesses which have developed in Darwin and Western Australia to use this resource. There is definitely a strong potential to add to the resource and build an industry for domestic and export markets which are already established to some extent.

FEA's capacity to supply sawlog markets

Eucalypt (EcoAsh[®]) hardwood sawlog development

Over the last three years, FEA has put considerable investment into researching and developing the sawing of young plantation Shining Gum (*E. nitens*). Plantation inventory and experience suggest that up to 50% of plantation log volume may be suitable for solid wood processing through specialist, high production small log sawmills.

In 2002, the company purchased a HewSaw mill manufactured in Finland. This can handle small diameter logs of either eucalypt or softwood species. FEA has realised this mill's potential to process unpruned fast grown eucalypts and has developed markets under the brand name EcoAsh[®] for this kiln dried sawn material.

This high quality product is extremely competitive with both native forest hardwood and plantation pine. FEA has been selling EcoAsh[®] to several major building supply retailers throughout Tasmania and into interstate markets. Some of the logs for this production have come from thinnings sold on behalf of Investors in the first six projects managed by FEA Plantations.

During 2005, FEA registered a Plantation Grown Hardwood (PGH20) structural grading standard for EcoAsh[®] in accordance with AS/NZ 40432 (1992). The timber is harder and stronger than equivalent sizes of softwood, (it is graded to about F17), and the structural sizes can be used for studs, plates and trusses.

FEA has installed two Italian conventional drying kilns, and will be installing Australia's first compression kiln, which is expected to significantly reduce the drying time for hardwood timber. In addition, FEA has installed further processing and moulding equipment that is enabling it to enter the high end of the value-adding chain with products such as EcoAsh[®] flooring and mouldings that can generate higher revenue.

In the flooring market, FEA is well positioned to benefit from the endeavours of already well established sawmilling companies that have promoted the warmth, charm and durability of hardwood flooring. Both hardwood and softwood flooring are available, but hardwood has the advantages of greater durability and stronger colour. A tongue and groove product has already been developed which has proved to be consistent in colour and aesthetically pleasing. EcoAsh[®] lining panels and furniture components are also under development.

As a natural extension of its production of perfect round poles, FEA is developing products for the decking and pergola markets and other external uses. Research is currently underway into developing effective preservative treatment methods for plantation hardwood

In 2008 FEA commissioned its new \$72M 'state of the art' Optimil sawmill and intends to continue EcoAsh[®] production at this site. The Optimil has the capacity to process much larger diameter logs than the smaller Hewsaw. The mill is now attaining 350,000 tonnes per annum throughput of plantation Radiata pine softwood and plantation Eucalypt hardwood.

Although this report does not attempt to provide any assurance as to the success or otherwise of any investment opportunity, it does suggest that Investors may benefit through product diversification that is enhanced by the use of new technology such as the Optimil.

Plantation sawlogs in NSW and Queensland

The five species proposed for planting in the Project in NSW and Queensland are mostly recognised as suitable for sawlog as well as pulpwood. FEA Plantations intends to concentrate on three species or their close relatives: *E. dunnii* (Dunn's White Gum), *E. saligna* (Sydney Blue Gum) and *E. nitens* (Shining Gum). To a lesser extent *Corymbia citriodora* var. *variegata* (CCV) (Spotted Gum) and the high-value but site-specific Blackbutt (*E. pilularis*) will be planted. CCV is endemic to southern Queensland and parts of northern NSW, while *E. dunnii* is endemic to the approximate region where FEA is establishing plantations in northern NSW.

FEA has plans to phase in the use of *E. saligna* on frosty sites as it does not have the fungal problems of CCV but is well regarded as a sawlog species and has good growth characteristics over a wide range of sites. The only unknown is the species resistance to cossid moth larval damage. This is being monitored and seems a minor issue at this time. CCV will still find application on the drier sites within a block.

A new *Corymbia* hybrid has been developed based on Spotted Gum and *Corymbia torelliana*. This is thought to be specially suited for plantation development and is reportedly resistant to damaging fungal attack. However the availability of germplasm is very limited and its development as a plantation species will be limited while this remains the case and its widespread applicability to a range of sites is unproven.

Market demand is met not so much by growing particular species, but by meeting the practical applications for which the species have been selected. In each case *E. saligna*, *E. dunnii* and CCV have been selected for the potential quality of their solid wood in value added applications.

Sydney Blue Gum and CCV have light coloured sapwood and dark heartwood, and the grain is straight and interlocked. Although commercial plantation areas have only recently been established, Sydney Blue Gum and CCV have been valuable timbers when harvested from native forests. CCV and Sydney Blue Gum work easily and while CCV is a preferred timber for bridge construction, pit props, tool handles, framing, flooring and case construction Sydney Blue Gum is well regarded for general building purposes, cladding, flooring, panelling and boat building. It is also well regarded for furniture and structural plywood. With appropriate site specific research and market development, the outlook for Sydney Blue Gum as a plantation species is favourable. CCV is very closely related to *C. maculata* (also known as Spotted Gum), which has proved to be one of the ten most popular Australian hardwoods grown around the world. There is a structural plywood mill in the North Coast NSW region and plantation species with plywood potential will find a niche in this area. ABARE reports that domestic growth in demand for ply and laminated veneer lumber (LVL) has been increasing at an average rate of 9.6 % during the twelve years between 1996 and 2007.

Eucalyptus dunnii has proved to be a successful plantation species in north-eastern NSW, with more than 8000 hectares already planted by Forests NSW in the belief that the timber will prove to be commercially valuable. This comprises 40% of Forests NSW hardwood plantation estate in this region.

Although *E. dunnii* has not yet been identified by the Australian Hardwood Network as a species currently yielding commercial solid wood products, a recently commissioned research report has concluded that it 'shows good potential for producing sawn timber'. This report was based on sawing trials of 10 year old plantation logs. In addition the report concluded that *E. dunnii* may be able to be genetically improved for better performance.

There is high potential for sawlog sales from plantation eucalypts in both NSW and Queensland because those state governments have made decisions about their native forest resource which make them dependent on a strong plantation resource for future hardwood sawlog supplies.

Sawmills in the NSW north coast region are successfully processing small diameter sawlogs from both forest regrowth and plantations. Several have received industry restructure grants from the state government enabling them to develop 'state of the art' facilities that can optimise value adding.

In south-east Queensland, where FEA Plantations has planted sites in the Kingaroy and South Burnett regions, some mills have been modified to handle relatively small native forest logs with standard twin-edger breaking-down machinery. Although these mills may not have the high volume capability of purpose-built small log mills, they illustrate the potential for using small logs to produce acceptable sawn timber for the domestic market.

The main species sawn in these mills are closely related and have similar wood properties to the major species being planted by FEA Plantations in the region on behalf of Investors, and local sawmillers have shown considerable interest in potential log supplies from those plantings. This could offset reduced log supply from state forests, including that linked to the Western Regional Forest Agreement.

Radiata pine softwood sawmilling

FEA had been processing Radiata pine softwood sawlogs sourced from Taswood Growers since 2002. Taswood Growers is a joint venture between Forestry Tasmania and GMO Renewable Resources managed formerly by Rayonier Australia Pty Ltd and more recently by Timberlands Pty Ltd. In April 2007, FEA commenced receiving deliveries of approximately 290,000 tonnes per annum of softwood sawlogs from Taswood Growers under a ten year wood supply agreement.

As a result of this agreement, FEA has invested a significant amount of capital to upgrade the mill at their existing site at Bell Bay in Tasmania in order to efficiently process both the increased volume of pine and the expanding EcoAsh[®] plantation hardwood resource. This investment also includes the construction of a new state-of-the-art sawmill on a recently acquired 85 hectare freehold industrial site at Bell Bay. The site is in close proximity to FEA's existing 11 hectare sawmill. The new sawmill expansion has seen the investment of approximately \$72M and the new north-American saw line now commissioned will process the full range of softwood and eucalypt plantation logs for FEA .

African mahogany hardwood

African mahogany hardwood timber is an important timber for furniture, indoor decoration, both in the solid and as veneer, high quality joinery for staircases, panelling and domestic flooring, boat planking and cabins, banisters and handrails. *Khaya senegalensis* is said to provide the best surface finishing characteristics of all the African mahoganies and is reported as a popular timber in East Africa for lorry bodies, construction work and decking in boats apart from normal uses of furniture.

African mahogany hardwood is known in the larger domestic markets of Melbourne, Victoria and Sydney, New South Wales although the rough sawn products from Ghana and available in those is *Khaya ivorensis* and the product is not regarded as stable and is imported in small volumes. There is sawmill in Darwin which is kiln drying 25 mm, 38 mm and 50 mm boards and looks to provide these southern markets with small quantities of stable kiln dried product.

FEA has purchased land in the Douglas Daly region which has 400 ha of established African mahogany plantations on the property. These are owned by a plantation company Northern Tropical Timbers. There is additional adjacent land which FEA intends to plant and manage for Investors and there are some 3-4000 ha of plantation managed by other companies in the general region.

Although the local regional market is small and the domestic market is in a development phase there have been some indications that there would be increased interest in quality stable dry product. Similarly Asian markets have indicated interest in quality product when produced and it is internationally recognized and traded as a high quality timber species. Darwin has a new port facility and could readily service export with a good road and rail network to move either logs or preferably sawn products to and through the port.

Attractiveness of Option 5 – Diversified Forestry Option

In each of the first four Woodlot options there are two or three yields from thinning and Clearfall harvests so that the Investor has an enhanced level of yield from earlier returns of cash. In the Diversified Forestry Offer there are four Option 1 Woodlots and 1 Woodlot from each of Options 2, 3, and 4. These provide two lots of returns from thinnings in year 9 (Options 1&2), a thinning return at year 11(option 4), a thinning and Clearfall return at year 13 (option 3 & 1 respectively), a Clearfall return at year 16 (option 2), a thinning and Clearfall return at year 18 (option 3 & 4 respectively) and then a Clearfall yield at year 25 again from Option 3. For an Investor this provides an array of 6 returns over a 25 year span of investments. This may provide an attractive alternative through a series of cash flows rather than a large lump sum payment at the point of thinning and Clearfall in the Rotation for a Woodlot. The Diversified Forestry Option should provide Investors the opportunity to smooth out the cash flows as well as the associated tax implications over the period of the investment.

Optional buy-back offer

With the advent of secondary markets there now has arisen the possibility that an Investor may exercise the right to avail of the optional buyback offer made by FEA after the trees attain 15 years of age in Woodlot Option 3 – Radiata pine softwood sawn timber/pulpwood. Instead of carrying the investment on beyond the fifteenth year an Investor can request that he be bought out for 90% of the value derived from an independent valuation assessment of the Woodlot/s at that time. This provides an opportunity to cash out of the investment at an earlier

date at a reasonable price. There are standard procedures for the derivation of the value at the time of the transaction based on information which can be verified.

The valuation process, conducted in accordance with an Australian Standard for valuing commercial forests, will basically consist of the following steps:

- Verification of the area in the pool for the Project
- Review of the Inventory process undertaken to determine the current growing stock at the time of proposed buyback
- Detailed analysis of the assumptions made as to market conditions and volumes of log products from the stands and the overall likely projected yields based on current harvesting and processing options available at the time. An important element of this would be the verification of current market prices for log products and an estimate on the validity of current and likely future market conditions.
- Analysis of the agreed scenario for the valuation using the assumptions in a reputable growth modeling software package to develop a final return per hectare for a particular option.
- A Net Present Value for the point in the scenario at which a buy-back is proposed would provide the value for an area. This NPV would be calculated for an appropriate discount rate.

This NPV would then be used to determine the 90% level value of the purchase. This process would be undertaken and verified by an Independent Forester and a detailed report of the valuation methodology and the conclusions reached will be supplied to Investors by FEA at the end of such a process.

Sawlog Pricing

Eucalypt sawlogs

Unpruned Tasmanian plantation sawlogs, and logs for the production of peeled veneer, have fetched 20 - 30% more than pulpwood from the same coupes under standard management regimes as per Woodlot Option 1 in the PDS.

Our research suggests that similar prices are achievable for wood from plantings in NSW and Queensland. Prime native forest sawlog and veneer stumpages in NSW range from \$70 to \$140/m³ from private native forests. Residual logs, which are lower in grade, range from \$25 to \$40/m³ from the same forests. The most recent reported NSW stumpage for small plantation grown sawlogs from thinnings in 2007 was \$30/m³. As plantations mature and the availability of native forest hardwood sawlogs diminishes it is probable that plantation sawlogs delivered into purpose-built sawmills such as the FEA timber sawmill, will generate mill door prices from the clearfelling of thinned stands at premium stumpage levels.

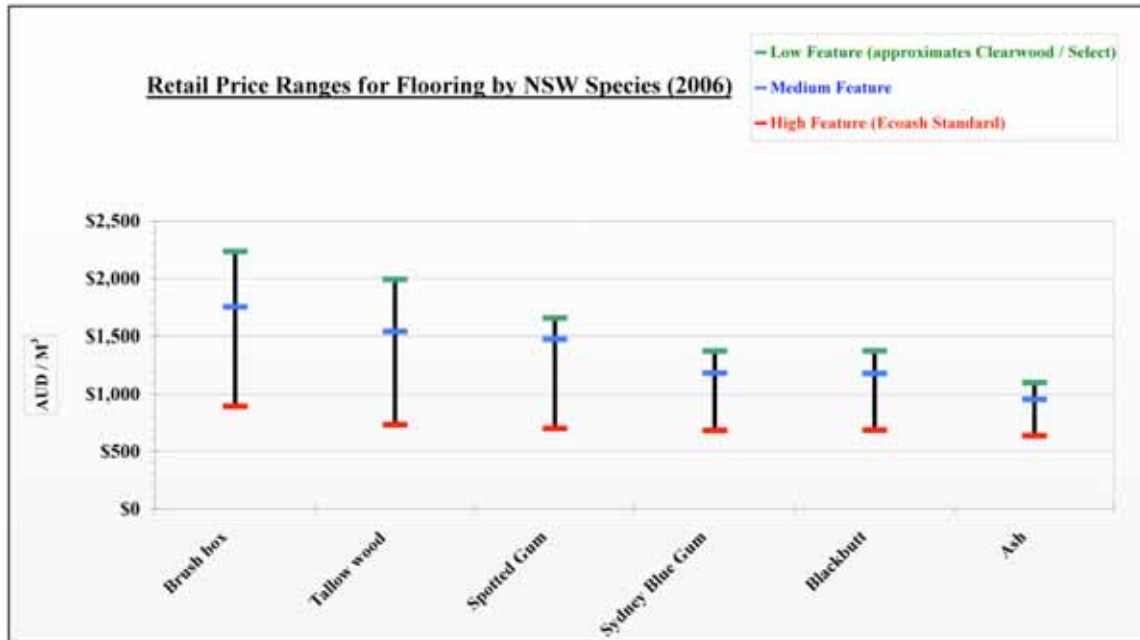
In neighbouring Asian countries there are established and expanding markets for hardwood but diminishing hardwood harvests. This presents an export market opportunity for sawn plantation hardwood products as well as the existing Australian domestic market, which is not fully supplied with hardwood products.

Eucalypt sawlog - 'clearwood price premium'

Clearwood is that part of a sawlog, which is clear of knots and other appearance defects sometimes referred to as 'features'. It is generally viewed as producing the most valuable timber because of its appearance as well as its strength and reliability for more intricate uses.

In the management regime under Woodlot Option 2, selected trees will be pruned (have side branches removed) to leave a clear lower bole to at least 6 m above the ground. By doing this, as well as researching and developing improved processing and drying techniques, FEA can position itself to supply the lucrative market for mouldings and furniture grade products, which requires pruning from a very early stage to produce clearwood, because mouldings from heavily 'featured' timber are of little value.

Although a further price premium for a pruned EcoAshclear[®] log over a standard EcoAsh[®] log is likely, it is difficult to quantify because each specific clearwood use would need to be investigated. However, to demonstrate the extent of premium pricing for value-added products, prices for kiln-dried flooring have been charted below.



Adapted from Timber Market Survey 2006

The chart shows the range of prices for six species of timber used for flooring. The vertical bars represent three market prices:

- The top of each bar depicts the price for clearwood, which attracts the best price for the species.
- The middle mark on each bar depicts the average price for each species.
- The lowest mark shows the base price for the more 'featured' timber of that species.

(nb: The term 'ash' is a common name for a variety of eucalypt species, and in the NSW context it does not refer specifically to the species grown by FEA Plantations.)

Although the chart is only relevant to flooring in NSW, it shows that there is already a premium price paid for clearwood over standard and high feature grades of each species.

EcoAshclear[®] would target furniture-grade 'clear of defect' products including mouldings such as architraves and 'appearance grade' flooring products, which would typically command retail prices in the order of \$1,200 - \$1,400/m³. Kiln dried structural grade hardwood commands a retail price of \$650 - \$940/m³ depending on grade and presentation.

Returns for Investors can already be expected to improve considerably from production of sawlogs rather than pulplogs, even though medium sized sawlogs are grown over a longer period and higher plantation management costs are incurred.

The above assessment of the potential for a clearwood premium is partly based on a review of native forest hardwood sawlog prices. For plantation sawlogs, the only relevant hardwood experience is the current premium being paid for eucalypt sawlog supplied to the FEA timber mill at Bell Bay, as against pulpwood.

Accordingly, it is reasonable to review prices for similar grades of plantation softwood logs (mainly Radiata Pine) in Australian and New Zealand.

The Australian Pine Log Price Index (APLPI) is published bi-annually using data from the major grower organisations marketing softwood logs in eastern and southern Australia. It is based on net stumpage not

including transport or harvest costs. The latest index published in September 2008 refers to stumpage prices in the six months to June 2007. The size of the unpruned sawlogs produced from Woodlot Option 1 will fall in the range of small and intermediate softwood sawlogs as listed in the APLPI. Small sawlogs are defined as less than 24cm in small end diameter under bark (SEDUB) while intermediate sawlogs are 24 - 31.9cm SEDUB.

In the June 2008 index, the weighted average net stumpage for small pine sawlogs was \$33.75/m³ and for intermediate logs \$47.09/m³. The average of these two log classes was \$40.42/m³. This can be used as a guide to a fair current price for standard unpruned eucalypt sawlogs of about this SEDUB size range, given that the main product is structural grade timber competing for many of the same uses as plantation softwood.

The APLPI does not include clearwood (pruned) logs, which is the target product of the Project's Woodlot Option 2. The most relevant published guide to prices for pruned pine sawlogs is the Ministry of Agriculture and Forestry statistics produced quarterly in New Zealand. The 12 quarter median price for P2 (medium diameter) pruned logs with a SEDUB range from 30 to 39.9cm for domestic NZ markets was AUD\$100 on a mill door delivered basis. After average harvest and transport costs are deducted this equates to stumpage of about \$75/m³.

These data suggest that these clearwood plantation softwood logs have about twice the value of unpruned logs of similar size. The prices can vary both up and down with factors such as wood quality, species, defect characteristics, harvest cost, transport cost, further processing options, licence and access fees and variations in sales contracts. In turn, other factors can impact on each of the listed parameters.

The proportion of a pruned eucalypt plantation that can be sold as clearwood logs has been estimated to be about 20% of the final harvest volume at 16 years with a further approximate 20% being unpruned sawlog.

Growers and processors increasingly depend on each other to achieve maximum returns. Although there is no certainty on future pricing, based on current examples, it is reasonable to expect premium pricing for pruned (clear) plantation eucalypt hardwood sawlogs to be at least double that of unpruned log market prices.

Eucalypt hardwood sawlogs - peeler logs

For some years, FEA have been sending shipments of unpruned Tasmanian eucalypt plantation logs to Asian markets for rotary peeling to produce plywood veneers. These 'peeler' logs are achieving a 20% margin over pulpwood prices for logs delivered on a 'wharf gate' basis at Bell Bay.

This export market is still in a development phase. Shipments have been in commercial quantities but must be considered trials. Margins may increase when more suitable logs become continually available as the volumes from more mature eucalypt plantations increase.

Peeler logs exported to China and other Asian markets in the recent past have been used to make structural plywood for building formwork. This requires the log to be turned on a lathe to produce thin laminate which are glued together in layers to generate strength in plywood or LVL (laminated veneer lumber).

There is also now a domestic manufacturer of plywood, Ta Ann, established at Southwood in Southern Tasmania. Based on a guaranteed long-term supply of logs from managed regrowth stands, the Malaysian company has committed to build two rotary veneer plants in Tasmania. The first mill in southern Tasmania is now operational. The second rotary veneer mill is now in operation at Smithton in north-west Tasmania. While both mills will initially use native forest regrowth logs there is potential to also supply plantation hardwood logs to these mills. The availability of pruned eucalyptus logs with a low internal diameter over pruned stubs will generate better recovery and offer an alternative for either rotary peeled ply laminate or sliced veneer. Such logs will be highly desirable to veneer or rotary ply producers and attract a premium stumpage price between AUD \$110 to \$133/m³.

In close proximity to FEA Plantations' northern NSW estate, there is a veneer mill at Grafton that has significant export markets and pays a premium for suitable hardwood logs. Native forest peeler logs less than 40cm in diameter can be valued at up to \$140/m³ delivered to the mill door, which is a better than average price for such logs as sawlogs, depending on transport distance. Uniform pruned plantation hardwood peeler logs would be a very valuable resource for a rotary ply mill.

Radiata pine softwood sawlog

Softwood sawlogs delivered to sawmills in eastern Australia are in strong demand and most sawmills are seeking to expand their volume to reduce unit production costs. As pine sawlogs generated from this Project are coming

on stream, sawmills in reasonable proximity to the resource should be able to match prices close to what is reported in the Australian Pine Log Price Index as at March 2007. Prices for sawlog from small logs in first and second thinnings are discounted to take account of the lower density of young pine which limits the end uses to which sawn product from these logs may be directed. The low density timber is most often used for packaging grades, fence palings and landscaping timbers which are often in the lower price bracket sawn materials.

High-value African mahogany hardwood sawlog

Although it has been grown for approximately 30 years in the Northern Territory, African mahogany hardwood has only recently been sawn and utilised for the manufacture of high value furniture products by one or two companies in the region. There have been sawing trials conducted on 32 year old trees and based on these there are sawn (seasoned and dressed) recoveries of 24-29% of gross log volume as 'flooring grade' plus an 8 -10% recovery as 'joinery' grade. Simulated cutting of these 'trial' logs using modern 'Optimil' technology suggests that total green-off-saw recoveries of around 50% could potentially be achieved. It is assumed for this analysis that an overall average recovery rate of 45% will be achieved.

Volumes of flooring grade timber would attract similar prices as the upper end of other hardwood flooring grades in the Australian market of \$1500-1800 per cubic metre. Personal communications with a Darwin value adding company obtained indications that the retail/wholesale value of furniture grade of African mahogany to be approximately \$4000 per cubic metre as kiln dried timber. This operator indicated that he was actively developing markets for the product in Southern Australia with good results to date. Sales to musical instrument manufacturers for high-quality timber in the order of \$5,500 per cubic metre have been achieved. It is assumed that the average wholesale price for seasoned, dressed timber will be in the order of \$3000 per cubic metre. The calculated clearfall sawlog stumpage after taking account of harvest, transport, processing and marketing costs for this quality material is \$446 per cubic metre. Sawlogs derived from thinnings of trees will be smaller and have lower sawn recovery and there is no certainty that there will be the same intensity of colour in the younger wood and hence the sawlog stumpage value has been reduced to \$223 per cubic metre.

Stumpage summary

In my opinion, based on the average stumpages for products under FEA Plantations' proposed Project should be in the order of values listed in the tables below. These values will move with market forces that apply at the date of harvest. As there have been large demands for timber products in the north Asian region and growing markets in China and India, the most likely movements over the longer term should be upward.

Woodlot Option 1 – Eucalypt hardwood

Stumpage/m³	Thinning	Clearfall
Pulpwood	\$42.00	\$45.00
Sawlog unpruned	\$52.50	\$56.25

Woodlot Option 2 – Eucalypt hardwood pruned

Stumpage/m³	Thinning	Clearfall
Pulpwood	\$42.00	\$45.00
Sawlog unpruned	\$52.50	\$56.25
Sawlog pruned	N/A	\$112.50

Woodlot Option 3 – Radiata pine softwood

Stumpage/m³	Thinning1	Thinning2	Clearfall
Pulpwood	\$11.00	\$11.00	\$11.00
Sawlog small	\$30.00	\$30.00	\$32.00
Sawlog medium	N/A	\$48.75	\$50.50
Sawlog large	N/A	\$69.30	\$70.25
Sawlog extra-large	N/A	N/A	\$80.55

Woodlot Option 4 – High-value African mahogany hardwood

Stumpage/m³	Thinning	Clearfall
Pruned Sawlog	\$223	\$446

Carbon Trading

The potential for Carbon Trading began with the Rio Earth Summit in 1992 and the signing by all the major developed nations of the United Nations Framework Convention on Climate Change (UNFCCC). The implementation of the convention was subsequently negotiated at Conferences of the Parties (COPs), and at the third such conference in Kyoto in 1997, thirty nine developed nations agreed to make reductions in emissions between 2008 and 2012 under the Kyoto Protocol.

Although they had signed the Kyoto Protocol, both Australia and the United States indicated in 2002 that they had no intention of ratifying it to make it legally binding.

Since 1997, many nations and sub-national jurisdictions have established various types of greenhouse gas abatement programs, however there are currently only two emissions trading schemes in operation that allow for the generation and trading of greenhouse gas emission 'offsets' - the NSW Greenhouse Gas Abatement Scheme (NSW GGAS) which started in 2003, and the European Union Emissions Trading Scheme which started in 2005 and more recently the Greenhouse Friendly scheme by the Australian Greenhouse Office.

There are numbers of companies providing 'offsets' but these are speculative and are at this stage not supported by any national or state scheme of emissions trading and are providing consumers an avenue for procurement of a carbon offset. These offsets still have to be recognised by a national and/or international emissions trading scheme and these offsets may or may not be recognised as there are no agreed rules. The carbon is being sequestered and a price is being set but the schemes are voluntary and speculative.

Of these, the only scheme of relevance to the planting of trees in Australia is the NSW GGAS which allows for the generation of abatement certificates from areas of reforestation planted after 1990. However this only applies to forests planted in NSW.

Investors should be aware that these NSW carbon sequestration certificates require that the Abatement Certificate Provider only generate certificates that correspond to the minimum carbon stocks that will be maintained for at least 100 years.

In November 2007 the new Australian government ratified the Kyoto Protocol and since then has also issued the Carbon Pollution Reduction Scheme (CPRS) White Paper. There has also been a report issued on September 30 2008 by Professor Garnaut, "The Climate Change Review" which was originally commissioned by the then Opposition Leader and the State Premiers in 2007 to estimate the cost of implementation of an emissions trading scheme to the Australian economy. Both of these reports strongly support the inclusion of forestry in an emissions trading scheme but there are issues which require resolution prior to their inclusion. These are (1) measurement or estimation and monitoring of greenhouse gas emissions and removals, and (2) consideration of changes to current emissions accounting provisions for these sectors under the Kyoto Protocol. These would require negotiation with the Kyoto signatories before any firm base of treatment of liability for emissions and credit for net removal from the atmosphere is decided.

Most of the first Rotation plantations on former agricultural land to be developed under this PDS are likely to meet the definition of reforestation since 1990 and FEA Plantations states that any net returns from this source would be shared with Investors on a 50/50 basis. The likelihood of a favourable position for plantations does seem better under these two proposals. However there is likely to still be a liability for any volume of carbon harvested, which may substantially limit the true value of trading carbon from a single Rotation plantation. There would need to be limited sales of the carbon stored in a developing estate so that there was always a pool of carbon held in the plantation resource that matched the permits traded plus a safety margin for natural events of fire and storm. This would reduce the liability to repay a 'credit' after harvest or natural loss. There is no knowledge of the cost of the reporting and monitoring system required under a yet to be negotiated set of conditions under the Kyoto Protocol and this cost could be formidable.

Investors must be aware that, although there is potential to earn returns from the sale of Carbon Credits arising from the Project, this is by no means certain. VDFC is of the opinion, based on publicly available information, that an Investor would be exercising appropriate caution in not including any revenue from potential Carbon Trading in cash flow projections.

Conclusion

VDFC considers that in the current market it is reasonable to expect stumpage prices for eucalypt pulpwood of \$42/m³ for thinnings and \$45/m³ for wood generated during final harvest. There may be some volatility in prices once sufficient volumes are available for sales that comprise shipments of only premium quality or only plantation woodchips. Softwood pine chips spiked in price in early 2006 and the stumpages paid for Radiata pine pulpwood are seeing a similar spike in stumpages of up to \$19/m³ in the Green Triangle region. This price spike is only expected to last for a limited period and then prices may return to around \$11/m³.

The potential advent of a world class kraft pulp mill in northern Tasmania could also generate higher pressure on resources and therefore increase the returns to Investors.

The current premium of 20 - 30% for standard unpruned hardwood sawlogs and peeler logs comes at an early stage in the development of the markets for these products and as volumes and margins increase, it may increase. clearwood sawlogs from pruned stands may fetch a stumpage about double that for unpruned sawlogs.

FEA has invested in a range of value-adding options that may increase the stumpage received by Investors above the price achievable from sales for woodchip production alone.

The returns to Investors will depend upon a range of factors such as international prices for plantation hardwood chips, prices for domestic and export logs, demand for sawn hardwood, Australian dollar exchange rates, and harvesting and processing costs. However, this Project has the potential to meet its financial objectives if the marketing strategy outlined above is implemented and the trees are planted on good land with sound forestry management as outlined in the Independent Forester's Report.

Disclaimer

VDFC has acted as independent consultant forester to the Project and has no financial interest in it. VDFC is independent of FEA Plantations and has provided opinions on this Project as the independent forestry consultant and in no other capacity. VDFC have used some information provided by FEA in this report. Although this information has been checked for reasonableness and accuracy, a range of factors can affect the results achieved. Neither VDFC nor its employees are responsible for the production of this PDS, take responsibility for omission or error in any matter in the PDS not referred to in this report, or guarantee the performance of the Project because of the risks attendant on investments of this nature. VDFC does not accept responsibility for updating the information contained in this report after the date of production.

In accordance with regulation 7.6.01(u) of the Corporations Regulations 2001, VDFC makes the following disclosures:

- (i) VDFC has been retained by FEA Plantations to prepare the Independent Forester's Report and Independent Market Report for inclusion in the Product Disclosure Statement. The total remuneration for this engagement was at standard professional fee rates.
- (ii) VDFC also provides consultant services to FEA Plantations on behalf of Investors to ensure that the plantation maintenance and protection is done to an expected professional standard.
- (iii) VDFC does not make any direct investment in FEA Plantations or its business interests and has no commercial interest in the financial products being offered other than as a service provider to FEA Plantations.
- (iv) VDFC does not hold an Australian Financial Services Licence and is not operating under such a licence in providing this report.

Yours faithfully

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